British Columbia in the Canadian Confederation

Brief of Argument

A Submission presented to
The Royal Commission on Dominion-Provincial Relations
by the Government of the Province of
British Columbia.

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THE CASE OF BRITISH COLUMBIA.

The major problem for consideration by the Commission is the financial relationship between the Dominion and the Provinces. This subject may be considered in three divisions:—

One: The subject of a general revision Dominion-wide in its application;

Two: The rights of individual provinces for particular consideration;

Three: Emergency or temporary assistance necessary for any province from conditions imposing an obligation on Canada as a whole.

In presenting the case for British Columbia, Divisions One and Two only need to be considered.

FIRST DIVISION.

GENERAL REVISION.

British Columbia joins with other provinces in asserting the need for a general revision or rearrangement of the financial relations between the Dominion and the provinces.

It is submitted that the scheme of Confederation providing for the financial arrangement between the Dominion and the provinces has broken down and its continuance without modification is not practically possible. The reasons for this condition are:—

One: The duties and functions of government of the provinces have increased far beyond what was in the mind of any one at Confederation. The increase of these duties and functions has placed financial burdens on the provinces out of proportion to the grants provided and the taxing powers conferred on the provinces by the federation scheme.

This fact can be established both by a reference to the speeches made by the public men of Canada at the time of Confederation, and by an analysis of financial statements of the provincial governments from Confederation to date, showing the increasing financial burdens on the provinces and the ever-increasing new services which they have been called on to perform. (*See* Part IV).[1]

Two: The provinces have not only assumed new duties and functions, but they are loaded with obligations in connection with unemployment, which it is submitted has now attained proportions of nation-wide gravity and properly should fall on the Dominion as a whole. (British Columbia has a special claim in this matter which will be submitted later.)

Three: There has been no provision either in increased grants or in enlarged powers of taxation adequate to meet these new burdens. Increased grants have been made, but not on sound principles or in sufficient amounts. The taxing powers of the provinces not only have not been broadened, but in effect they have been seriously curtailed.

Both these subjects, that of grants and of taxing powers, require separate consideration. This will be given in more detail in Division Two as applicable to British Columbia, but are here outlined in general.

(1) Wherever " Parts " are referred to throughout this Brief, the document involved is " British Columbia in the Canadian Confederation." A submission presented to the Royal Commission on Dominion-Provincial Relations by the Government of the Province of British Columbia.

Federal Grants to the Provinces:

At the time of Confederation only four provinces were involved: Ontario, Quebec, Nova Scotia, and New Brunswick. The problem at that time was less complex than now, yet it is reported that the pre-confederation discussions of this question threatened to wreck the conference.

The provinces were surrendering the duties of excise and customs, which were their main sources of income. The Dominion was assuming the debts of the provinces and all functions of government believed to be national in their scope and character. The scheme adopted was to adjust the debt assumptions and to provide enough money for the provinces to enable them to carry on their local governments at the then estimate of what the costs would be.

This scheme had three provisions:—

(1.) The device of debt allowances;

(2.) A yearly grant of 80 cents *per capita* to each province on the basis of the then population;

(3.) Exceptional or special grants in certain cases.

These provisions were arrived at for the purpose of meeting the then financial need of the provinces and the political exigencies of the moment. They had within them no capacity for self-adjustment and no possibilities for meeting new conditions. They met the need of the hour; they helped to bring about Confederation—the future must look out for itself.

In less than three years legislation was passed by the Dominion granting to Nova Scotia an additional subsidy for ten years, beginning as of July 1, 1867. This has been described by Maxwell in his book[2] on Federal Subsidies as the " first assault upon the financial terms of the B.N.A. Act." It would have been more correct if Professor Maxwell had said " So soon was it indicated that the financial scheme of confederation was not accurate in its computations and had within its provision no powers of self-adjustment."

From 1869 to the present, many changes have been made in the original financial arrangement. New provinces have come in, and old formulæ have been applied with adjustments made in an endeavour to meet new conditions. A study of Canadian history for the past seventy years shows that the adjustments and changes have been based on no sound governing principles. They have lacked consistency and equality of treatment. In many instances they have been inadequate.

Provincial Taxing Powers:

The provinces have been limited in raising revenue by the constitution to direct taxes, licence fees, and sale or other disposal of their assets. Licence fees, generally speaking, are a form of direct taxation; the sale of assets is not properly revenue. The field is, therefore, substantially limited to direct taxation.

The powers conferred on the Dominion are to raise money by any mode or system of taxation. It is submitted that it was understood at Confederation that the field of direct taxation would be left to the provinces. Certainly it was not expected that the field would ever be invaded to the extent of draining this source of provincial revenue.

For many years this understanding was observed. It was not until the Great War that a change was made. Even then it was made only as an

(2) Maxwell, J. A.: " Federal Subsidies to the Provincial Governments in Canada."

emergency War measure. To-day the invasion of this field by the Dominion is not only permanent in its character, but it has attained such dimensions as to seriously affect in some provinces their only method of increasing their revenue.

SECOND DIVISION.

BRITISH COLUMBIA'S SPECIAL CLAIMS.

It is submitted that British Columbia has a special case for the consideration of the Commission which stands outside the general claims of other provinces and which entitles her individually to have a readjustment with the Dominion. It is submitted that this Province has not received equitable treatment in the Canadian partnership, and that the result has been unfair to her as a Province, detrimental to the welfare of her citizens, and harmful to Canada as a whole.

The position of this Province is not based on any plea of poverty. She does not plead lack of resources, the unkindness of nature or lack of income in her citizens. On the contrary, it is asserted British Columbia, in natural wealth, in climatic conditions, and scenic attractions, is not excelled in any part of Canada. It is believed, if given a fair opportunity, not only can this Province adequately provide for and administer her own affairs, but that her growth and development will contribute to the general prosperity of the nation. In making this statement the position must not be misunderstood. It will appear with greater clarity hereafter as details are presented.

It is necessary, however, to leave the door open. Comparison may be made with a large private business enterprise which cannot succeed until it is fully established as a going concern. Its local markets are restricted and, taken alone, are unprofitable. Its overhead costs are heavy. It can only succeed if the financial resources of the company are available for enterprise and it has free scope to complete its structure and market its commodity in competitive markets of the world. To carry the analogy further, if such enterprise were a subsidiary of some parent organization which drained its resources, restricted its field of operations, and placed undue burdens upon it, failure would be inevitable. This comparison is not intended to be an exact one, but is used to illustrate in a general way some features hereafter to be presented.

It is submitted for British Columbia that the scheme of Confederation and method of its operation have imposed undue burdens on the Province, which is retarding her growth and development, is draining her resources, and is preventing her from assuming her proper place among Canadian provinces. This submission is not made in a narrow spirit or in an attitude hostile to Canadian institutions, but in the confident hope that a new Confederation will emerge as a result of the findings of this Commission.

Reasons for Special Case for British Columbia:

It is submitted that the financial set-up now and heretofore existing between the Dominion and British Columbia has not made adequate provision for the cost of government in the Province, has drained her resources, impeded her industries, and is unfair for the following reasons:—

One: The grant allowances are inadequate for and entirely out of proportion to the increasing cost of provincial government;

Two: The allowances have been made without due consideration of the physical features of the Province, which make the cost of government exceptionally high;

Three: In comparison with other provinces of Canada, equitable treatment has not been received by British Columbia in the matter of Federal subsidies and allowances;

Four: The contribution which British Columbia is making to the Confederation is excessive;

In comparison either with grants which she receives from the Dominion; or with contributions of other Provinces.

The contributions referred to in particular are:—

A. The federal income tax;

B. The duties of customs and excise, excise taxes, and the sales tax;

C. The incidence of the tariff in relation to commodities purchased in Canada outside of the Province at prices enhanced because of the tariff.

Five: Not only is the federal income tax excessive and an invasion of the field of provincial sources of revenue, but it is applied on a principle contrary to the spirit of Confederation. The British North America Act has allotted to the provinces ownership of the lands, forests, minerals, and other natural resources. The Dominion is taking as income, revenues derived from the depletion of these assets. From the standpoint of the individual the returns from the disposal of the forests and mines of the provinces may be deemed to be income, but from the standpoint of the province it is a disposal of her capital assets.

Six: It is impossible for the province and the municipalities to meet the necessary costs of the administration of government and debt obligations under existing conditions, except by increasing the burden of taxation to an intolerable extent.

Before supporting these six reasons in detail, it is proposed, *first,* to refer to the summary and analysis of the financial arrangements made with the Dominion from Confederation to date; and, *second,* to the outline of the representations and protests heretofore made by this Province to the Dominion.

First: The summary and analysis of financial arrangements is set out in "British Columbia in the Canadian Confederation," Part II., beginning at page 3.

It is submitted that the method of adjusting the relations between the Dominion and the Province adopted at Confederation was not a competent method to be applied to British Columbia and overlooked in its computations many of the essential factors applicable to this Province. Tested by the rule of thumb method of measurement provided in the Confederation agreement, British Columbia may appear to have been treated fairly or even generously. But measurements which entirely overlook many of the essential subject matters to be measured cannot be relied on in determining what is fair or what is generous.

It has already been stated that even in the case of the four original provinces, the financial adjustment was an expedient to meet existing conditions in specific provinces. It was never a formula to be applied to other places and other times. In fact, it was declared by Sir Charles Tupper that readjustments on a proper basis would have to be made. (*See* Part II., page 3.)

When British Columbia joined Confederation her duties of customs and excise bore a vastly different relation to her population than did those of the Eastern Provinces to their population. Her territory and cost of government also bore an entirely different relationship to her revenues and her population.

The Dominion Government fully recognized this fact by the action which was taken. Political exigencies made it necessary to use the same method of determining the grant as had been used at the time of the original union. Actual conditions, however, made it necessary to resort to fictitious assumptions to correct at least in part the deficiencies of the formula. The population of British Columbia at this time was 34,100. The population assumed for the purpose of the grant and *per capita* debt adjustment was placed at 60,000. This increase was not a discriminating favour to British Columbia, but was an attempt to correct in part the shortcomings of the method of computation. A further adjustment was made by allowing the province $100,000 a year in consideration of the Province turning over the lands of the " railway belt." Professor Maxwell says of this grant: " The scheme was definitely a stratagem invented because of the fiscal need of British Columbia and because the Federal Government desired to bring another Province into the federation." (Page 40.) Unfortunately, Professor Maxwell, having recognized the need of British Columbia, has not in his work shown an understanding of the reasons why this need existed, or of how inevitable it was that the development of the Province would accentuate the need and make progressive adjustments necessary.

The method of determining the allowances to be made to British Columbia were politically successful. The immediate requests of the Province were satisfied. The subterfuge served its purpose in the House of Commons, and the extension of the Dominion to the Pacific was made a fact. The criticisms of the method as we now look back over the years are: (*a*) a false impression has been created that " exceptional " and " generous financial terms " were given to British Columbia; (*b*) the method did not involve an intelligent and understanding examination of the real financial condition of the Province; (*c*) no attempt was made to anticipate or provide for the future needs of the Province. The bargain was not so much unfair as improvident. A settlement was declared to be final which was based on immediate expediency only and which gave no heed of to-morrow. Nothing is settled until it is settled right, and no partnership relation is enduring which is not fair.

Second: Summary of previous representations. These are set out in Part II., beginning at page 12.

Detailed Consideration of Reasons for Readjustment for British Columbia:

The force of the claims made during the past forty years is strengthened by an examination of the present condition of the Province, its relation to the Dominion, and by a comparison with the other provinces.

It is proposed now to return to the six reasons heretofore enumerated on pages 5 and 6, and deal with them in detail.

One: The grant allowances from the Dominion are inadequate in relation to the present cost of the administration of government in the Province.

In dealing with this problem, consideration must be given to the cost of municipal government. The division between the Provincial Government and the municipalities of the taxing powers given to the Province under the British

North America Act is wholly a provincial problem, and it cannot be ignored in an analysis of the provincial tax structure or in estimating the total provincial annual expenditures. The burden of the apportionment of governmental administrative duties and the division of taxing powers between the Provincial Government and the municipalities must be assumed by the Province. It is the same people who pay taxes to the Province and to the municipalities. The duties imposed on the municipalities are divided into two classes: (*a*) Powers given which they may voluntarily assume; (*b*) Obligations which are directly imposed on them by the Legislature.

(*a*.) Powers conferred are set forth in Part V., pages 205 and 207. While these powers are voluntary, they are in substance compulsory as of necessity.

(*b*.) Obligations imposed are set forth beginning at page 205 of Part V. It will be seen that all powers and obligations in both classes are essentially part of the provincial administration of government, and the sources of taxation are part of those conferred on the Province by the British North America Act. The details of the forms of municipal taxation are set forth in Part V., beginning at page 213. It is to be noted that over 90 per cent. of the revenue raised comes from levies on land and improvements. At page 220 is set forth the cost of social services. Table 92, Part IV., gives the total of municipal expenditures which are almost as great as those of the Province.

With these observations, we will now return to "Reason One."

In the comparisons to be made it is to be noted that the figures of municipal expenditure of 1872 are "*estimated*." There are no actual figures available. At that date Vancouver did not exist and New Westminster and Victoria were the organized municipalities. No borrowing powers were granted them, and no mandatory duties were placed on them. Consequently, it is believed their expenditures would not be 25 per cent. of the provincial expenditures.

In 1872.	The Provincial Annual Expenditure	\$604,369
	Estimated Municipal Expenditure	151,092
		\$755,461
1872.	Federal Grants to British Columbia	214,000[3]
	The grants were nearly 30 per cent. of the expenditure.	
1935–36.	Provincial Expenditures	\$23,243,000
	Municipal Expenditures	28,442,000
		\$51,685,000
1935–36.	Federal Grants	1,624,561[3]
	The grants were only 3.1 per cent. of the expenditure.	

The percentage of the grants to the expenditures has thus shrunk from nearly 30 per cent. in 1872 to about 3 per cent. in 1936. It is to be noticed that the 1936 grants include the allowance of \$750,000 made by the Dominion for the first time in 1935 and which was given as a provisional additional allowance until such time as full inquiry should determine a more permanent basis of contribution. It is also to be borne in mind, as will hereafter more fully appear, that this reduced percentage in the grants has diminished as

(3) *See* Part II., Table 1, page 6.

other sources of revenue have been increasingly drained by the Dominion or exhausted by the Province. The stage has now been reached when the available revenue is not sufficient to meet the expenditures.

It is interesting to note that in the debates on Confederation, Sir Alexander Galt stated, referring to provincial expenditures: "If the men in power find that they are required by means of direct taxation to procure the funds necessary to administer the local affairs, *for which abundant provision is made in this scheme*, they will pause before they enter upon any career of extravagance." Making allowance for every extravagance which may be charged against British Columbia (which is a charge also open to the other provinces and to the Dominion), these percentages indicate how utterly inapplicable to the arrangement with British Columbia was Galt's statement as to "abundant provision." At another place he stated: "independent of the 80 cents per head which it is proposed to allow the local governments out of the general exchequer, for the purpose of meeting their local expenditures. These local expenditures include such items as the administration of justice, the support of education, grants to literary and scientific societies, hospitals and charities, and such other matters as cannot be regarded as devolving upon the General Government."

A detailed study of the increasing costs of social services indicates how insignificant present federal grants are to the actual financial burdens falling on the Province and its municipalities for these services. This subject is fully covered in Part IV. The following headings and pagings are given to facilitate references to this Part:—

Expenditures on Government Functions (*see* page 162):

- (*a*) social services
- (*b*) unemployment relief
- (*c*) education
- (*d*) administration of justice
    - (*a*) *Social Services:*
        1. General and Protective (page 85)
        2. Medical (page 86)
        3. Charitable (page 98)
    - (*b*) *Unemployment Relief* (page 107, Table 56, page 108)
    - (*c*) *Education* (page 142, Table 74, page 143)
    - (*d*) *Administration of Justice* (page 160)

In considering the present-day expenditures as above indicated, it is pertinent to refer to the statement made by Sir Wilfrid Laurier in the House of Commons in 1907:—

> "Lower Canada would not have entered confederation if as a consequence she had been obliged to resort to direct taxation to levy the revenues necessary to carry on her domestic affairs. What was true of Lower Canada was equally true of the Maritime Provinces; Nova Scotia, New Brunswick, and Prince Edward Island would not have agreed to enter into confederation if as a consequence direct taxation would have to be resorted to . . . ever since the British Provinces of North America have been granted representative government, the only mode so far as my information goes, through which they carry on their domestic affairs, municipal governments and their legislatures, has been by means of customs and excise duties; therefore it is not to be wondered at that when the Provinces represented at that conference agreed to surrender to the central government the exclusive right of taxation in way of customs and excise they should at the same time have stipulated as a condition precedent that a certain portion of the

revenue that is collected should be returned to them, *and a portion sufficient to permit them without having recourse to direct taxation to carry on their provincial affairs.* This is the reason of the enactment which we have before us in the sixty-fourth resolution of the Quebec Conference. It was one of the many promises which had to be made in order to render confederation possible, and without which possibly confederation would have remained a dream."

Two: The federal allowances have been made without due consideration of the physical features of the Province which make the cost of government exceptionally high.

This question has been pressed on the Dominion from time to time since British Columbia joined Confederation. It has already been briefly referred to in the summary of previous representations. It is particularly in relation to highways and other public works, education, policing, and health services that the physical conditions add greatly to the cost of governmental administration.

British Columbia has an area of 366,255 square miles. It is as large in area as the United Kingdom, France, Holland, Belgium, and Denmark combined. The total agricultural land in the Province is about 20,700 square miles, or about 5 per cent. of the total area. The total population of the Province is estimated at 780,800 (page 59).[4] The farm population, according to the 1931 census, was 102,367, or 14.7 per cent. A large area of the Province is mountainous.

"The principal industries of the Province are lumbering, mining, fishing, agriculture, and trapping and other fur production. These industries are widely scattered over the Province. In many instances agriculture arose as a subsidiary to mining or forest industries. When a mine closed or a forest area was cut over, these agricultural communities remained. The agricultural industry, as distinct from forestry and mining, tends to create permanent communities for which the full range of governmental services must be supplied. The colonization and settlement of the Province has resulted in widely-scattered agricultural communities. To supply them with normal services is a matter of great cost to the Government."[5]

Highways: The total mileage highway system is 20,172. This includes gravelled highways, 6,536; bituminous surfaced, 843; and paved, 113 miles. The estimated cost of construction is $89,000,000. The approximate expenditure on roads from 1871 to 1937 was $114,000,000.

Education: See Part IV., pages 142 and 146.

Policing and Health Services: What has been said about other services applies also to these services.

Three: In comparison with other provinces of Canada equitable treatment has not been received by British Columbia in the matter of federal subsidies and allowances.[6]

It will be convenient to divide this aspect of the matter into three subclassifications; i.e., debt allowances; subsidies; special grants.

It will be remembered that the proposed Terms of Union contained, *inter alia*, the following clauses:—

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(4) British Columbia in Canadian Confederation.

(5) *Ibid.*, page 51.

(6) The argument under this heading is based on "Province of British Columbia's Claim for Readjustment of Terms of Union, 1935," pp. 18–28.

(*a.*) Canada shall be liable for the debt and liabilities of British Columbia existing at time of Union:

(*b.*) The population of British Columbia shall for the *purpose of financial arrangements* be estimated at 120,000; British Columbia, not having incurred debts equal to those of other Provinces now constituting the Dominion, shall be entitled to receive by half-yearly payments, in advance, from the General Government, interest at the rate of 5 per cent. per annum on the difference between the actual amount of its indebtedness at the date of Union and the proportion of the public debt of Canada for 120,000 of the population of Canada at the time of Union:

(*c.*) The following sums shall be annually paid by Canada to British Columbia for the support of the Local Government and Legislature, to wit: An annual grant of $35,000, and a further sum equal to 80 cents per head of the population, both payable half-yearly in advance, the population of British Columbia being estimated as aforesaid at 120,000.

Clause (*a*) was accepted; clauses (*b*) and (*c*) were rejected; the population both for estimating the debt, clause (*b*), and the *per capita* allowance, clause (*c*), was reduced to read 60,000.

As stated above, the salient reason for assuming a population of 120,000 (approximately three times the actual number) was the fact that, on a *per capita* basis, the Customs and Excise revenue which was being surrendered to the Dominion amounted to $8.25 in British Columbia, as against a *per capita* of only $2.75 accruing to the Dominion from similar sources over the whole of Canada. And as the revenue requirements, *per capita,* from this source were thus demonstrated to be three times the normal for the whole of Canada, it naturally followed that, in order to maintain the same ratio, it was necessary that the subsidy which was to replace this revenue be calculated on a population three times the actual number. In other words, the British Columbia Customs being $330,000 was equal to $2.75 per head on a population of 120,000, upon comparison with Canada.

British Columbia was given a debt allowance on the same basis as Nova Scotia and New Brunswick—namely, 27.77 per head of population (Terms of Union, section 2). The population assumed for British Columbia was 60,000; this gave the Province a debt allowance of $1,666,200—27.77 by 60,000. The actual funded debt in 1871 was $1,168,000, with floating debt $320,000, less sinking funds $442,380, leaving net debt $1,045,620. The Province was, therefore, allowed interest on an estimated amount of $620,000 at 5 per cent. per annum, being the difference between the debt allowed on *per capita* of 60,000 at 27.77 per head and the actual net debt of $1,045,620. This gave the Province an annual interest allowance of $31,000 a year, which continued up to July 1st, 1872. In the meantime minor differences were adjusted which gave the Province an interest adjustment allowance of $2,289.75 up to July 8th, 1873, so that for the year 1873 the interest on debt allowance amounted to $33,289.75. In the year 1873, by Act, 36 Vict., chap. 30, Statutes of Canada, the *per capita* of 27.77 for British Columbia, Manitoba, and Prince Edward Island was raised to 32.43 *per capita*, which gave British Columbia an additional capital sum allowance of $279,600. Ontario and Quebec were allowed the excess over

original debt allowed in 1867, namely, $10,506,088.84, and Nova Scotia and New Brunswick's debt allowances were increased from the *per capita* basis of 27.77 in 1867 to *per capita* basis of 32.43, similar to that of British Columbia, Prince Edward Island, and Manitoba.

In 1884 a general readjustment of debt allowances for all Provinces under authority of Dominion Statute, 47 Vict., chap. 4, 1884, was made. The effect of this legislation made retroactive the adjustments of 1873 granted to Ontario, Quebec, Nova Scotia, and New Brunswick to July 1st, 1867. From 1867 to 1873 Ontario and Quebec having been charged interest on the excess of debt it was decided to recoup these Provinces for the deductions. This gave Ontario an annual allowance for interest on debt allowance of $142,414.48 and Quebec $127,460.68, which they still receive. By the same Act Nova Scotia and New Brunswick's *per capita* debt allowance was increased from 32.43 in 1873 to 34.82 in 1884, increasing their annual interest allowance in the case of Nova Scotia $30,668.44 and New Brunswick $30,225.97. Manitoba, British Columbia, and Prince Edward Island also had their debt allowance increased to bring them up to a *per capita*—Manitoba, 34.22; Prince Edward Island, 51.68; and British Columbia, 34.11—giving them an annual increase in interest charges of $5,541.25, $9,148.68, and $4,155.39 (British Columbia), respectively. The following are the only adjustments British Columbia has received on debt allowance, namely:—

1871, original allowance	60,000 at	$27.77	$1,666,200.00
1873 allowance	60,000 at	4.66	279,600.00
1884 allowance	49,459 (1881 Census) at	1.68	83,091.00
		$34.11	$2,028,891.00
Various withdrawals and liquidations amounted to			1,445,869.80
Leaving present capital sums of			$583,021.20

upon which amount the Province has received annually for fifty years $29,151.06, representing interest at 5 per cent. per annum.

Had the proposed terms of this debt allowance been based upon 120,000 population as requested by the British Columbia delegates, upon the *per capita* of Nova Scotia and New Brunswick of 27.77 (the original basis of computation), British Columbia would have been entitled to a debt of $3,332,400, against which must be deducted the actual debt, less sinking funds, of $1,046,200, leaving the sum of $2,286,200 upon which an annual interest allowance of $114,310 instead of the $31,000 actually received. Furthermore, if population of 120,000 instead of 60,000 had been allowed the *per capita* allowance for Government at 80 cents per head from 1871 to 1901 would have amounted to $96,000 instead of $48,000 received, making an additional *per capita* grant for the period of $1,440,000. Assuming the *per capita* debt adjustments of 1873 and 1884 had been given British Columbia and been made applicable to a population basis of 120,000, the following would be the difference which the Provincial Assembly considered British Columbia was entitled to as terms of Confederation and which subsequent events have more than corroborated:—

	Interest on Debt Allowance actually received.		Claims under Proposed Terms at Confederation.
1871–72 (one year)	$31,000.00		$114,310.00
1872–73 (one year)	33,289.75		130,579.75
1873–74 (one year)	47,293.95		144,583.95
1874–75 (one year)	42,049.65		139,339.65
1875–76 (one year)	35,247.29		132,537.29
1876–77 (one year)	25,216.86		122,506.86
1877–78–79 (two years)	50,187.12	($25,093.56)	244,767.12
1879–80 (one year)	25,086.23		122,376.23
1880–81 (one year)	25,019.12		122,309.12
1881–82 (one year)	24,366.33		121,656.33
1882–83–84 (two years)	49,991.32	($24,995.66)	244,571.32
1884 to 1937 (fifty-three years)	1,545,006.18	($29,151.06)	7,015,425.03
	$1,933,753.80		$8,654,962.65
Allowance for debt received			1,933,753.80
Difference between proposed and accepted terms			$6,721,208.85
Add difference in *per capita* allowance of 80 cents per head—			
1871–1891, difference 60,000 @ 80c.=$960,000			
1891–1901, difference 21,827 @ 80c.= 174,616			
			1,134,616.00
			$7,855,824.85

Saskatchewan, with an actual population in 1901 of 91,279, was, upon entry into Confederation in 1905, allowed an assumed population of 250,000 for subsidy purposes. Alberta, with an actual population in 1901 of 73,022, was, at the same time, also allowed an assumed population of 250,000 for subsidy purposes. Manitoba, by various adjustments, has been placed on a parity with these other two Provinces.

It will be seen that these Provinces were allowed assumed populations fully three times the number actually revealed by the census, and yet this is the very proposal that was refused to British Columbia.

Actual debt allowances of Provinces on entering Confederation, together with various adjustments and special grants that followed in later years:—

		Per Capita.
Canada (Ontario and Quebec) (1867)	$62,500,000	$24.92
Nova Scotia (1867)	8,000,000	24.18
New Brunswick (1867)	7,000,000	27.77
Manitoba (1870)	472,090	27.77
British Columbia (1871)	1,666,200	27.77
Prince Edward Island (1873)	4,701,050	50.00
Saskatchewan (1905)	8,107,500	32.43
Alberta (1905)	8,107,500	32.43

Nova Scotia Gets More.

Nova Scotia was dissatisfied with a debt allowance of $24.18 per head of its population as compared with the $27.77 allowed to its neighbour, New Brunswick, and by chapter 2 of the Dominion Statutes of 1869 Nova Scotia's debt allowance was increased to $9,188,756, this bringing it approximately to

$27.77 per head; and on this basis Manitoba and British Columbia were treated when they came in later. Prince Edward Island's exceptionally large allowance was granted on account of its "isolated and exceptional condition." By chapter 3 of the Acts of 1874 it got an additional $199,490, but this was only a readjustment following the general allowance of 1873.

Increase in 1873.

When Confederation had been in existence for about five years the Provinces of Ontario and Quebec evidently did not relish paying 5 per cent. interest on the $10,000,000 excess over their proportion of the national debt whilst all the others were receiving semi-annual payments from the same account. The result was the passage in 1873 of "An Act to readjust the Amounts Payable and Chargeable against the several Provinces of Canada by the Dominion Government so far as they depend on the Debt with which they respectively entered the Union." The result of this Act was to strike off the $10,506,088.84 excess over the original debt allowance of Ontario and Quebec. In order to equalize the position of the other Provinces it was found necessary to increase their debt allowances in the same proportion per head of their various populations. This increased the allowances for Nova Scotia and New Brunswick from $27.77 to $32.43 per head, and on the latter basis subsequent adjustments have been made, as when Alberta and Saskatchewan were admitted in 1905. These Provinces were given a debt allowance of $32.43 per head each on an assumed population of 250,000. The same settlement was conferred on Manitoba by the "Boundaries Extension Act" of 1912.

Increase in 1884.

Chapter 4 of the Acts of 1884 was entitled "An Act to readjust the Yearly Subsidies to be allowed by Canada to the Several Provinces now included in the Dominion." Its chief purposes appear to have been to make the increases allowed to Ontario, Quebec, Nova Scotia, and New Brunswick in 1873 retroactive to July 1st, 1867. This necessitated readjustments in the other Provinces, and section 2 provided that the debt allowance to the Provinces of British Columbia, Manitoba, and Prince Edward Island should be increased in proportion to their populations as ascertained by the census of 1881 as the total of the amounts to be added to the other four Provinces bore to their respective populations in the census of 1881.

What this increase amounted to was plainly set forth in section 3 of the Act.

	Interest Yearly Increase.	Capital.
Ontario and Quebec, jointly	$269,875.16	$5,397,503.13
Nova Scotia	39,668.44	793,368.71
New Brunswick	30,225.97	604,519.35
Manitoba	5,541.25	110,825.07
British Columbia	4,154.55	83,091.12
Prince Edward Island	9,148.68	182,973.78

The increase to British Columbia, Manitoba, and Prince Edward Island was dated from July 1st, 1884.

The above adjustments increased British Columbia's annual debt allowance payment from $24,995.66 to $29,151.06, at which figure it has stood from that day to this.

British Columbia, Manitoba, and Prince Edward Island.

These three Provinces are in a peculiar position to the rest of Canada in that they entered Confederation within a few years after the original pact of 1867. Manitoba came in in 1870, British Columbia followed in 1871, and Prince Edward Island in 1873. These three Provinces were specifically mentioned in the readjustment Act of 1884. As we have seen, Prince Edward Island, on account of its " isolated and exceptional condition, etc.," was given a debt allowance of $50 *per capita* of its population as opposed to $27.77 in the case of British Columbia and Manitoba. With subsequent changes Prince Edward Island, with the smallest population in Canada, has to date been granted a debt allowance of $4,884,023. Manitoba, starting at the Union with a debt allowance of $472,070, had it increased by subsequent Acts, culminating with an addition of over $4,000,000 in 1912, till to-day it stands at $7,631,684. British Columbia's total allowance stands to-day at $2,028,891.

Following is the *per capita* allowance for these Provinces, based on the Dominion census of 1931:—

	Debt Allowance.	Population.	Per Capita.
Manitoba	$7,631,683	700,139	$10.90
Prince Edward Island	4,884,023	88,038	55.47
British Columbia	2,028,891	694,263	2.92

The above figures do not represent the actual interest received annually by these three Provinces to-day, as original debts had to be deducted and the Provinces were also allowed to draw on the capital of their debt allowance. This was done from time to time. Manitoba was declared to have no debt on entering Confederation so it leaves her allowance intact, except for some small withdrawals. Prince Edward Island and British Columbia both had fairly heavy debts at the time of Union, so that the present standing of debt allowances on which these three Provinces draw interest is:—

	Balance of Allowance.	Annual Interest Received.	Per Capita.
Manitoba	$7,631,684	$381,584	$0.55
Prince Edward Island	775,792	38,789	.44
British Columbia	583,021	29,151	.04

So far as debt allowance was concerned British Columbia and Manitoba entered Confederation on fairly equal terms, each with a *per capita* allowance of $27.77, the one on an assumed population of 60,000, the other on an actual population of 17,000. There was this difference: that British Columbia had claimed the right to enter the Union with an assumed population of 120,000, on the ground that while the actual population was 40,000 the revenues were three times greater per head than those of the rest of Canada. It was considered only equitable therefore that British Columbia should receive subsidy in proportion to the revenue taken from the Province by the Dominion. In

British Columbia's anxiety for railway connection a compromise of 60,000 assumed population was accepted.

Manitoba at Confederation, in addition to the allowance of $472,090 in lieu of debt—a *per capita* equivalent of the allowance to other Provinces—was granted $30,000 and 80 cents per head on estimated population of 17,000 in aid of local government. The Province was created in 1870 from a portion of Rupert's Land acquired from the Hudson's Bay Company on payment of £300,000 in addition to an extensive land grant; and in forming this Province the Dominion retained "all ungranted or waste lands . . . except as may be affected in the agreement for the surrender of Rupert's Land by the Hudson's Bay Company." Manitoba was purely a territorial acquisition of the Dominion, and whilst as a Province it received competent local government and had grants made to it similar to other Provinces it had no jurisdiction over its lands as had the other Provinces. To the purchase price of the Hudson's Bay lands British Columbia in common with the other Provinces subsequently contributed.

In 1882 legislation was passed by the Dominion whereby the grant in aid of local government was increased from $30,000 to $50,000 and the *per capita* allowance was based on 150,000 people—the census population of 1881 being 62,660, and the indemnity in lieu of public lands, made at Confederation, was increased to $45,000 a year. In 1885, as a settlement of claims made by Manitoba for better terms: (1) The swamp lands were returned to the Province; (2) the University of Manitoba was endowed with 150,000 acres for its maintenance; (3) the indemnity for want of public lands was increased from $45,000 to $100,000 a year; (4) the annual increase of *per capita* allowance was to be made every two and a half years; (5) the debt allowance was increased and advance of $150,000 allowed for public buildings.

In 1912 Dominion legislation provided for: (1) Extension of boundaries of Manitoba to Hudson Bay; (2) interest on debt allowance being increased annually from $178,947 to $381,584, retroactive to 1908; (3) the public lands and resources were to be returned to the Dominion and in lieu the Province was to be paid, on basis of population at each quinquennial census, $562,500, subject to certain deductions for lands retroactive, this amount to be retroactive to 1908 and to increase with increase of population—this, with interest, made an adjustment in 1912 of $2,193,357.31; (4) allowance to assist in providing for construction of public buildings of $201,723.57 was made, bringing total payment to Manitoba for Government buildings of $468,750.

With the various adjustments and increases, special grants, the original subsidy of $47,987.80 paid to Manitoba in 1870 has increased to an annual payment in 1936 of $1,716,484.18, as against $874,561.46 for British Columbia. This last-mentioned sum does not include the interim grant of $750,000 received in 1935, 1936, and 1937.

Saskatchewan and Alberta.

Saskatchewan and Alberta were created Provinces in 1905 and the *per capita* grant was made subject to change every two and a half years. The annual grants for Government have increased from $50,000 per year to $220,000 in Saskatchewan and $190,000 in Alberta. As the Provinces were not in debt they were to receive $405,375 per year as interest on a debt allowance; and in lieu of lands received $562,500 a year, with additional allowance when popula-

tion exceeds 800,000. They were also given allowances of $468,750 for public buildings, payable in five years. The school lands allotted to these Provinces have provided $10,364,483 to Saskatchewan and $6,724,070 to Alberta.

Four Western Provinces.

The four Provinces of Western Canada came into Confederation in the following order: Manitoba in 1870, British Columbia in 1871, Alberta and Saskatchewan in 1905. As previously noted, Manitoba and British Columbia started with an equal *per capita* debt allowance of $27.77, though in Manitoba's case it was on actual population of 17,000 and in that of British Columbia on an assumed population of 60,000. Under the readjustment of 1873 (both Provinces still being dealt with on the old *per capita* basis of population), Manitoba received an increase of $79,357 and British Columbia got $279,600. From this time forward, however, the positions were reversed. Under the readjustment of 1884 Manitoba received an increase of $110,825 and British Columbia was given $83,091. In 1885 Manitoba was given a further increase of $2,649,642; British Columbia got nothing. In 1898 Manitoba again was given an increase of $217,026 and British Columbia got nothing; and in 1912, on the extension of her boundaries, Manitoba received another increase of $4,052,763; British Columbia, of course, not being considered.

Thus we have this parallel:—

	Manitoba.	British Columbia.
Allowed at Union	$472,070	$1,666,200.00
Added by Act of 1873	79,357	279,600.00
Added by Act of 1884	110,825	83,091.00
Added by Act of 1885	2,649,642	*Nil*
Added by Act of 1898	267,026	*Nil*
Added by Act of 1912	4,052,763	*Nil*
Total debt allowance	$7,631,683	$2,028,891.00
Deducted for original debt and withdrawals		1,445,869.80
Present capital of debt allowance British Columbia		$583,021.20

When we turn to Alberta and Saskatchewan the matter is simple. When these Provinces were taken into Confederation in 1905, each was given a debt allowance of $32.43 *per capita* on an assumed population of 250,000, the capital amounting to $8,107,500 in each case. At this time the *per capita* debt allowance for each of these Provinces based on the census of 1931 stands as follows:—

	Allowance.	Population.	Per Capita.
Manitoba	$7,631,683	700,139	$10.90
Saskatchewan	8,107,500	921,785	8.80
Alberta	8,107,500	731,605	11.08
British Columbia	2,028,891	694,263	2.92

Manitoba's increase in 1885 was granted under the heading of "An Act for the *Final Settlement* of the Claims made by the Province of Manitoba on the Dominion." It added as we have seen about $2,650,000 to the debt allowance. This final settlement was followed in 1898 by "An Act respecting the Manitoba Debt Account," which added $267,000 more as compensation to the Province

for the erection of the Legislative Buildings and Government House at Winnipeg. To this further final settlement another $4,000,000 was added by the " Boundaries Extension Act " of 1912.

Saskatchewan and Alberta were treated liberally in 1905 and to-day draw annually an interest on debt allowance of over $400,000, Manitoba would have the same but for withdrawals that bring it down to about $380,000, whilst British Columbia received about $29,000. This is an anomaly that should be corrected.

TOTAL INTEREST ON DEBT ALLOWANCE.

Below are the amounts actually received in interest payments on debt allowances by the different Provinces from Confederation to March 31st, 1936 (Canada Year-book, 1937) :—

	Interest on Debt Allowance.	Per Capita by 1931 Census.
Ontario	$5,710,933	$1.51
Quebec	5,451,714	1.90
Manitoba	14,113,788	20.16
Saskatchewan	12,566,625	13.63
Alberta	12,566,625	17.18
New Brunswick	1,450,565	3.55
Nova Scotia	3,288,252	6.41
British Columbia	1,904,603	2.74
Prince Edward Island	2,641,635	30.01
	$59,154,640	$5.71

NOTE.—Whilst the above represents total interest paid on debt allowance to the different Provinces since they entered Confederation it cannot be regarded as a criterion of the amounts of principal actually paid, since some Provinces have drawn on the debt allowance for capital expenditure, and this has reduced the interest received.

THE 80C. PER CAPITA ALLOWANCE.

The purpose in allowing this particular grant has already been indicated by previous references to Confederation debates, and is presumed, in view of the surrender of Customs and Excise duties, to augment sufficiently the limited revenues remaining at the disposal of the Provinces to enable them to carry on such services as " the administration of justice, the support of education, grants to literary and scientific societies, hospitals and charities, and such other matters as cannot be regarded as devolving upon the General Government."

This conception is emphasized by the statement of Sir Wilfrid Laurier in 1907, after reviewing the compromise financial arrangements of Confederation in reference to Lower Canada and the Maritime Provinces, in which he says :—

" It is not to be wondered at, that when the Provinces represented at that Conference agreed to surrender to the Central Government the exclusive right of taxation by way of Customs and Excise, they should at the same time have stipulated as a condition precedent that a certain portion sufficient to permit them, *without having recourse to direct taxation*, to carry on their Provincial affairs." And also that the Provinces mentioned " would not have agreed to enter Confederation if, as a consequence, direct taxation had to be resorted to."

In the case of British Columbia, owing to the insufficiency of this compensation, it was necessary at the very outset to provide other means of financing the

Provincial undertakings mentioned. This Province had scarcely been in Confederation five years before direct taxes on income, personal property, real property, and wild land had to be levied in order to enable the Government to carry on, and it has been in this field of taxation ever since. Otherwise British Columbia never could have undertaken the conduct and development of these services throughout the vast expanse of its rugged and scattered territory.

It was with a full knowledge of local conditions, and with a view to making provision for the nature and extent of these requirements, that this Province stipulated a *per capita* allowance based on a population of 120,000.

Reason for fixing Per Capita Allowance at 80c.

The sum of $264,000 was required by Nova Scotia, in addition to her territorial revenues of $107,000 to provide for immediate local requirements; this sum works out at about 80c. per head. New Brunswick, who could not manage on this basis, proposed to cut down local expenditures from an estimate of $404,000 to $353,000 and to make a further reduction of $63,000 within ten years, but for each of the first ten years she was to receive a special grant of $63,000 to balance her accounts.

Cost to British Columbia of Services which were to be defrayed from the 80c. Per Capita Grant, 1871 to 1936–37.

Legislation	$4,482,630
Administration of Justice	29,725,893
Education, etc.	87,855,856
Hospitals and Charities	50,672,873
Mothers' and Old-age Pensions	12,364,390
	$185,101,642
Total *per capita* grant received	13,843,598
Adverse balance	$171,258,044
Cost of Provincial share of Unemployment Relief to 1936–37	30,447,905
	$201,705,949

CENSUS.

The fact that this allowance is determined on the decennial basis of population, although apparently not unfavourably regarded by the Eastern Provinces, works to the serious disadvantage of British Columbia. With the advent of the railway the population increased to an abnormal extent, yet this was not reflected in the subsidy for several years. To illustrate the point, in 1911 the decennial census fixed the population, upon which the subsidy for the ensuing ten years was based, at 391,000. In 1914 a conservative estimate showed it to be approximately 450,000, while the census in 1921 disclosed the actual population as 524,000. Yet, for subsidy purposes, the population over this whole ten-year period was presumed to be only 391,000. The loss thus sustained by the Province is, therefore, quite evident, since the heavy expenses occasioned by the incoming population was necessarily incurred many years in advance of the increase in the *per capita* grant.

It will readily be conceded that the Western Provinces have shown, and will continue to show, a more rapid proportionate increase in population than the Eastern Provinces. For instance, in the sixty years ended in 1931 the population over the whole of Canada has increased 181.27 per cent., whereas in British

Columbia the corresponding increase has been 1,815.37 per cent. In the case of Manitoba, Saskatchewan, and Alberta, this factor was recognized in the arrangement for determining the *per capita* grant, whereby an actual census is taken every five years, upon which an estimated census is based every two and a half years, and the allowance is readjusted accordingly. Some idea of the extent to which British Columbia has suffered by reason of this obvious inequality will be gathered from the following statement:—

ALLOWANCE PER HEAD OF POPULATION, ACTUAL RECEIPTS.

	No. of Years.	Annual Rate.	Amount.
1871–72 to 1890–91	20	$48,000.00	$960,000.00
1891–92 to 1900–01	10	78,538.40	785,384.00
1901–02 to 1910–11	10	142,925.60	1,429,256.00
1911–12 to 1920–21	10	313,984.00	3,139,840.00
1921–22 to 1930–31	10	419,665.60	4,196,656.00
1931–32 to 1936–37	6	555,410.40	3,332,462.40
Total			$13,843,598.40

IF PAYMENT HAD BEEN RECEIVED ON BASIS OF OTHER WESTERN PROVINCES.

1871–72 to 1890–91	20	$48,000.00	$960,000.00
1890–91	2½	78,538.00	196,345.00
to 1895–96	2½	94,635.00	236,587.00
1895–96	2½	110,731.60	276,728.00
to 1900–01	2½	126,828.40	317,071.00
1900–01	2½	142,925.60	357,314.00
to 1905–06	2½	185,690.00	464,225.00
1905–06	2½	228,452.00	571,130.00
to 1910–11	2½	271,219.00	678,047.50
1910–11	2½	313,984.00	784,960.00
to 1915–16	2½	340,404.00	851,010.00
1915–16	2½	366,824.00	917,060.00
to 1920–21	2½	393,245.00	983,112.50
1920–21	2½	419,665.60	1,049,164.00
to 1925–26	2½	453,601.80	1,134,004.50
1925–26	2½	487,538.00	1,218,845.00
to 1930–31	2½	521,474.20	1,303,685.50
1930–31	2½	555,410.40	1,388,526.00
to 1935–36	2½	589,346.60	1,473,366.50
1936–37	1	623,282.80	623,282.80
Total			$15,784,464.30

On basis of Western Provinces	$15,784,464.30
Actually received	13,843,598.40
	$1,940,865.90

British Columbia, therefore, claims that the basis of arriving at her *per capita* allowance should be the same as is in effect in the case of the three Prairie Provinces, and that, having regard to the many disadvantages under which this Province has laboured in the past, the readjustment should be made effective as from 1891.

Special Grants to Provinces.

Not only in debt allowance, but in special grants to Provinces, British Columbia has suffered in comparison with the others, as the following figures, based on the 1931 census, show:—

	Special Grants to March 31, 1936.	Per Capita.
Prince Edward Island	$5,939,304	$67.46
Nova Scotia	9,126,980	17.80
New Brunswick	15,480,000	37.92
Manitoba	21,019,233	30.02
Saskatchewan	18,531,250	20.10
Alberta	16,218,750	22.17
British Columbia	9,000,000	12.96

NOTE.—Includes interim payments to Nova Scotia, New Brunswick, Prince Edward Island, and British Columbia. Compensation for lands, allowances for buildings, and readjustment of subsidy to Manitoba.

A statement of the total allowances which have been received by the several Provinces will be of interest, and from which it will be noted that, with the sole exception of Prince Edward Island, British Columbia foots the list. This notwithstanding the fact that, in territorial extent, British Columbia is over seven times greater than the three Maritime Provinces combined, and that internal communication and cost of administration due to the mountainous character of the country is relatively still greater. Therefore any suggestion that the subsidy given to British Columbia is proportionate to that given the other Provinces is unreasonable.

Subsidy Allowance to Provincial Governments, July 1, 1867, to March 31, 1936.

	Allowance for Government.	Allowance per Head Population.	Special Grants. (1), (2), (3)	Interest on Debt Allowance. (4)	Total.
Prince Edward Island	$3,920,000	$5,399,966	$5,939,304	$2,641,635	$17,900,905
Nova Scotia	7,910,000	24,132,563	9,126,980	3,288,252	44,457,795
New Brunswick	7,270,000	18,431,226	15,480,000	1,450,565	42,631,791
Quebec	9,760,000	86,880,639		5,451,714	102,092,353
Ontario	10,160,000	107,197,007		5,170,933	122,527,940
Manitoba	7,115,000	17,913,385	21,019,233	14,113,788	60,161,406
Saskatchewan	5,936,667	16,842,814	18,531,250	12,566,625	53,877,356
Alberta	5,536,666	13,172,843	16,218,750	12,566,625	47,494,884
British Columbia	6,510,000	13,288,188	9,000,000	1,904,603	30,702,791
Totals	$64,118,333	$303,258,631	$95,315,517	$59,154,740	$521,847,221

(1) Includes compensation for lands and allowances for buildings.
(2) Includes interim grant to Maritimes, 1928–36, inclusive, and British Columbia, 1935 and 1936.
(3) Includes for 1931 readjustment of subsidy, 1870–1908, Province of Manitoba, $4,822,843.
(4) Allowances in lieu of debt.

Four: The contribution which British Columbia is making to the Confederation is excessive:—

Either in comparison with the grants which she receives from the Dominion; or in comparison with the contributions to other provinces.

The following contributions are particularly referred to:—

A. INCOME TAX.

For the purposes of the discussion it is proposed to classify the provinces of Canada into three groups:—

First: Ontario and Quebec. These two central provinces are in a position distinct from the other provinces. The fiscal policy of Canada has been designed to protect and build up the secondary industries. The result of this policy has been to centralize the protected industries in Ontario and Quebec. It has also centralized there most of the large corporations doing business across Canada. The result has been to increase greatly the population of these provinces and add to their incomes and purchasing power.

Second: The other provinces except British Columbia. These provinces pay tribute to the protected industries of Ontario and Quebec in increased customs duties and enhanced prices for commodities purchased in Canada. In return, however, they receive more or less compensating advantages from the home market built up by this tariff policy.

Third: British Columbia. British Columbia pays her tribute to the protected industries of Ontario and Quebec. For her, however, there is little compensation from the home market. She is compelled to buy in the highest market and sell in the lowest. The great bulk of her commodities are not sold in the so-called free trade area of Canada, but in the competitive markets of the world.

The facts to support this classification will be given later. It is set forth at this juncture in order to explain the basis of comparison to be now made. These comparisons are made with the second group of provinces only. Comparisons with Ontario and Quebec will be made on a different basis for the reasons determining their different classification.

Comparisons: 1918–1919 to 1937.

Dominion Income taxes collected from British Columbia		$74,860,000.00
Dominion Income taxes collected from the three Maritime Provinces, Alberta, and Saskatchewan		74,401,000.00
Population, British Columbia	780,000	
Population, these 5 provinces	2,767,000	
Total Dominion Grants to British Columbia		16,750,000.00
Total Dominion Grants to above 5 Provinces		99,374,000.00

Comparisons: British Columbia and Manitoba.

Dominion Income taxes collected from British Columbia		$74,860,000.00
Dominion Income taxes collected from Manitoba		56,142,000.00
Population, British Columbia	780,000	
Population, Manitoba	711,000	
Total Dominion Grants to British Columbia		16,750,000.00
Total Dominion Grants to Manitoba		34,587,000.00

It is estimated that for the fiscal year 1937–38 the Dominion income tax collections will exceed the combined income tax collections for the three Maritime Provinces and the three Prairie Provinces. (*See* Part V., page 182.)

Population, British Columbia	780,000
Population, these 6 Provinces	3,500,000
Total Dominion grants to British Columbia	$16,750,000.00
Total Dominion grants to above 6 Provinces	133,961,000.00
For the period 1918–1937 the Province collected income taxes	84,380,000.00
As against the Dominion collection	74,860,000.00

For the past fiscal year and the present one the Dominion collections in British Columbia exceed those of the Province. (*See* Part V., page 186.)

In making these comparisons between British Columbia and other provinces, it may be suggested that the total income of its citizens should be considered in relation to the total income of the citizens of the other provinces. This is conceded, but with important qualifications:—

First: It is the total income which should be considered and not merely that which is taxable. For instance, there is subsistence income. The character of the industry of British Columbia would indicate that it is unlikely that subsistence income is as high in British Columbia as in other provinces. This would be due, in the main, to the situation in the forestry and mining industries, where a large number of men are employed under conditions where the production of subsistence income is impossible. It would be natural to suppose that the largest sum of subsistence income would be obtained in those provinces in which agriculture assumes greater importance. The census figures for 1931 show the farm population of British Columbia as only 14.7 per cent. of the total population, compared with Saskatchewan, 61.2 per cent., and Prince Edward Island, 63 per cent. (*See* Part III., Table 41, page 74.)

Second: It is suggested that more money proportionately is collected from Industry in British Columbia because of the fact that industrial operations are there conducted by larger groups or corporations than in the agricultural provinces. The rate of taxation is thereby affected. If, for instance, in Alberta farming was conducted by large corporations embracing in one group a large number of the present individual farmers, the rate of taxation would be higher. (*See* Part V., page 189.)

Third: Income should be considered in relation to the cost of upkeep of the Province. The sum total of individual net incomes makes up the income of the Province. But this does not become a provincial net income until there is deducted therefrom the cost of government in that province. It is submitted that it was recognized at Confederation that when the provinces surrendered their customs and excise duties, which were their principal source of revenue and were restricted to the field of direct taxation, it was intended that this field would be available to a province at least to the extent necessary to meet its cost of government. If this

contention is correct, it follows that the Dominion's right to invade this field, if at all, is subordinate to the prior right of the Province, and that not until the Province has satisfied its needs from this source should the Dominion collect income tax in that Province. Not only has the Dominion violated this principle in British Columbia, but it does not event permit the taxpayer to deduct his provincial income tax in computing his federal taxable income.

The following is a quotation from the budget speech of the Honourable John Hart, 1935:—

" In defining the respective fields of taxation the Provinces were by the Act restricted to licences, fees, royalties, and direct taxation, whereas the Dominion reserved to itself the right to levy by any mode of taxation; from Confederation onwards, however, a tacit understanding existed to the effect that direct taxation was the sole prerogative of Local Government. It is not surprising, therefore, that the Provinces viewed with alarm the Dominion's invasion of this field in 1918 by the imposition of an income tax; at the time this tax measure was introduced, Sir Thomas White, the then Federal Minister of Finance, made the following statement in the House of Commons:—

" ' The Dominion Government under the provisions of the " North America Act " is empowered to raise revenue by any mode or form of taxation, whether direct or indirect; on the contrary, the Provinces, and by consequence the municipalities which derive their taxation-power from the Provinces, are confined in the raising of revenues to the measures of direct taxation. For this reason, since the outbreak of the war, I have hesitated to bring down a measure of Federal income taxation, and I have not regarded it as expedient, except in case of manifest public necessity, such as I believe exists at the present time, that the Dominion should invade the field to which the Provinces are solely confined for the raising of their revenue.'

" The imposition of the Dominion income tax came as a serious blow to British Columbia, as this Province had levied a like tax since 1876; repeated protests have been made at Ottawa in this connection, so far without result."

There may be reasons for the other provinces, except Ontario and Quebec, wishing to concede the income tax to the Dominion, so that from these two populous and highly-protected provinces income may be taken for the benefit of all Canada. No such reason justifies the collection of the present disproportionate federal income tax from British Columbia, or for the Dominion taking revenue which is necessary for the governmental functions of the Province.

B. Duties of Customs and Excise and Sales Tax as Imposed by the Dominion on British Columbia.

The amounts of these taxes are set out in Table 103, page 187, Part V.

The figures there given do not represent accurately the payments made by British Columbia, as is pointed out in the pages following the table. They are too large by the amount of duties collected on goods consigned to other provinces and too small by the amount of duties collected on goods that enter through points of entry in other provinces and are consumed in British Columbia. It is believed that the one largely offsets the other, so that the figures become approximately accurate. With regard to excise duties and taxes, and tax on gold, bank note circulation, and insurance companies, the figures for collection in British Columbia cannot be taken as representative of the incidence on British Columbia individuals and industry.

In a number of cases the collections are much smaller than the actual proportion of revenue from these taxes that are paid by individuals and industry in British Columbia. The sterling example is the sales tax, which on goods manufactured in Canada is collected at the point of production. The greatest part of Canadian manufacturing is concentrated in Ontario and Quebec and the sales tax is collected there at the source. The collections at the plant would be shown as part of the Dominion revenue collected in these provinces, even although as is the case, a large portion of these goods are consumed in other parts of Canada, where the ultimate consumer must pay the tax.

The same principle also applies as to income taxes. This is pointed out in the evidence of Mr. Fraser Elliott, given before the Commission at Ottawa, page 3529:—

> "I have shown you the money we collected and now perhaps I might break it down into the places from whence it comes. It comes mostly from Toronto and Montreal. These districts really collect money from all parts of Canada because the head office of many companies is in these big cities. Their activities however extend across Canada. They make profits in every province. These profits come home as part of the head office accumulation, and is therefore reflected in the financial statements and in these centres taxed. When we say that the amount of money is collected from Montreal and Toronto, it is true as to the place where the hand that received the money is located; but it is not true in the sense that the money is earned in these districts. It is earned all across Canada."

Again, the tax on bank notes is collected from the head offices of the banks, all of which are in Ontario and Quebec, and no revenue is shown as collected from British Columbia, although the banks have extensive circulation of their notes there.

Bearing in mind these qualifications, the following figures are quoted from the Tables for 1935–1936:—

Customs Duties collected at British Columbia ports of entry	$7,217,000
Excise duties collected in British Columbia	3,050,000
War tax revenues—Excise taxes	11,070,000
Taxes on chartered banks (note circulation) and Insurance companies	115,000
	$21,452,000

(*See* Table 103, page 187, Part V.)

C. The Incidence of the Tariff in Relation to Commodities Purchased in Canada Outside of the Province at Prices Enhanced because of the Tariff.

It is not proposed in this submission to attack the principle of protection with a view to its removal, or even to advocate a lower tariff. If parliament in its wisdom determines that a protective policy is for the general advantage of Canada, the individual provinces must accept this policy as for the common good. This does not mean, however, that the nation should not have due regard to the drain which this policy may impose on some constituent part, or that this drain should not be considered in the financial arrangements between the provinces and the Dominion.

We have already dealt with the effect of the tariff in the collection of customs duties. The operation of the tariff in relation to protected goods

purchased by the citizens of one province in other provinces is not so obvious, but in its effect it may be more direct than in the case of duties collected at the border. As to these latter, the Province at least enjoys some share in its participation in the general revenues of Canada. In the case of the toll taken by the higher prices paid in Canada, the levy does not reach the Treasury but goes directly to the manufacturers. It can be shown that in the case of British Columbia her contribution brings no appreciable benefits, but, on the contrary, she suffers the additional detriment which added costs impose on her industries. British Columbia buys largely in a protective market and sells largely in competitive markets. She is forced to buy at the highest prices and to sell at the lowest. It is submitted that the tariff duty is a tax and a subsidy. It is a subsidy in the same sense in which a bounty is a subsidy. The only material difference is that a bounty is a fixed sum, whereas a tariff subsidy is an uncertain sum. In the case of the bounty, moreover, the amount of the subsidy is collected by the government from the taxpayers and is then paid over directly to a subsidized industry, whereas in the case of a tariff subsidy the government merely fixes the rate of the duty and the subsidy is paid by the consumers of the commodity which is protected.

The truth of this statement is very evident in some industries. The automobile industry serves as a good example. This industry is located entirely in the Province of Ontario, with certain recent exceptions that do not materially affect the argument. It receives tariff protection of rates varying from 20 per cent. to 40 per cent. under the general tariff. The industry itself admits a protection which permits prices in Canada for low-priced cars "to exceed on the average the price received by United States manufacturers for similar cars by about 25 per cent." (*See* address by J. C. Armer, of the Automotive Parts' Manufacturers Section of the C.M.A., made before the Society of Automotive Engineers, Canadian Section, January, 1938.) It is known that the protection is higher in the case of higher-priced cars. It may be of interest to note that Mr. Armer in his address makes this statement: "It should also be borne in mind that the purchaser of a new low-priced Canadian-made car in the great majority of cases has a used car to trade; and that the actual cash he pays the dealer to consummate the trade is very little more—if any more—than would be necessary to consummate a similar trade in the United States. Therefore, after his original purchase the car owner in Canada in all his subsequent purchases does not pay the apparent difference in prices."

As this address has been sent to every member of Parliament under the stamp of the Canadian Automobile Chamber of Commerce, presumably this argument is intended to be taken seriously and may be some indication of the soundness of the whole case. The answer is fairly obvious. The dealer who takes in the used car on the trade makes the allowance on the basis of its original tariff protected price and resells it on the same basis. The part of the extra price not paid by the purchaser of the new car is made up by the purchaser of the old car, or else must be a direct loss to the dealer. The result is that the purchasers of cars in the Province *as a whole* pay the full additional price of every new car purchased.

It is estimated[7] that the cost of new cars purchased last year in British Columbia was $11,500,000. A considerable number of these cars were not low priced, so that the average excess price may be placed at 30 per cent. On this

(7) The Dominion Bureau of Statistics.

basis the excess cost to British Columbia was $3,450,000. Clearly this cost is paid by the consumers of automobiles in British Columbia. These figures, in connection with the automobile industry, indicate the justification of the classification of provinces made *ante* at page 22.

Not only in the case of automobiles but as to industries generally, the tariff protection in Canada confers special benefits upon the central provinces of Quebec and Ontario. It follows that the tariff is a form of subsidy which while given directly to industries is in effect a contribution to the development of the provinces whose industries benefit thereunder. If this subsidy were paid directly out of the Dominion Treasury in the form of bounties to particular industries in particular provinces, it would be comparatively easy to determine how such bounties should be distributed in an equitable manner among the several provinces, having regard to the resources and needs of their populations. A tariff subsidy, however, is not paid out of revenues. It frequently has the effect of contracting revenues. It is paid by those who consume the commodities manufactured by the protected industry, so that the real burden of paying the subsidy may fall upon provinces which do not share either directly or indirectly in the industrial development it is designed to promote. Manufacturing stimulated by the protective tariff is distributed to some extent among the several provinces, but there has been a disproportionate development in the central provinces of Ontario and Quebec. These provinces have received an excessive share of the tariff subsidy, and, having relatively few export industries, have borne less than their reasonable share of the cost of the subsidy.

The answer which is made to this argument is that, as a result of the tariff protection, a home market is built up for other commodities which benefits not only the province in which an industry is situated, but all the other provinces who share in the purchasing power created by the protected industry. It is pointed out that Canada as a whole is a free trade area, the home market of which is open to the producers of all the provinces. This argument may be sound as far as the facts apply. It has little force when applied to the facts in the case of British Columbia. Distance and freight rates and the nature of her saleable commodities have almost completely shut her out of the protection-created home markets of Eastern Canada. She is forced to buy in these markets at high prices, made so by tariff and freight charges. On the other hand, she must sell her wares in the competitive markets of the world, handicapped by distance and the high cost of production imposed on her by the tariff.

Apparently either the meeting of Parliament or the sessions of this Commission has stimulated the propaganda activities of the automobile industry. Another document has recently been mailed to the members of Parliament which may be called a "butter terms" argument. It announces the fact that "The east eats 20,000,000 pounds of Western butter, worth $4,500,000 annually to the Western producer." It states "Your purchases of made-in-Canada cars help maintain this market by keeping thousands of workers in steady employment with regular pay cheques that enable them to buy more Western foodstuffs." It further states: "There are 18,000 workers in Canada's automobile plants, and 15,000 employed in the 202 parts Manufacturers' plants. An average of four to a family means over 130,000 people whose prosperity depends in whole or in part on the activities of the motor car builders. Add as well the employees of railways who live by traffic, and you have a huge cross-section of

Eastern Canada—a group of people who contributed much of the $40,000,000 spent last year for Western farm products."

The facts of this circular are of special interest to British Columbia. British Columbia did not sell a pound of the 20,000,000 pounds of butter. The real point of the circular, as applied to this Province, is that whereas British Columbia is contributing $3,450,000 annually to maintain an industry supporting 130,000 tax-paying citizens in Ontario and citizens who are helping to buy 20,000,000 pounds of butter annually from the other Western provinces, none of these direct benefits are coming to British Columbia.

The article further states: " All told, the East drew on its Western commissary for over $40,000,000 worth of farm products providing a vital source of income to thousands of Western farmers." As in the case of the automobile industry, British Columbia paid its toll to support the various industries creating this purchasing power, but no appreciable portion of this money has been directly spent in British Columbia, and very little of it indirectly. This will appear from the statistics now presented.

TABLE B OF TRADE REPORT.[8]

British Columbia bought in Canada, 1935, outside of British Columbia, commodities costing	$66,000,000
British Columbia sold to other parts of Canada ($8,730,000 being Gold bullion)	25,400,000
Sold outside Canada	84,648,000
Bought—Eastern Canada	55,000,000
Sold—Eastern Canada	$14,000,000
Less Bullion	8,730,000
Sold to Eastern Canada (excluding bullion)	$5,270,000

Chief commodities sold to Eastern Canada:—

Apples	$305,000
Fish	1,780,000
Lumber	2,800,000
	$4,885,000

Chief commodities sold by British Columbia to Western Canada: (*see* Table 68, Trade Report.)

Comparative foreign exports, 1936:—

Ontario	$223,000,000
Quebec	332,000,000
British Columbia	139,000,000

The commodities of the Province sold outside of Canada:—

fresh apples	condensed milk
fresh halibut	cedar logs
fresh salmon	Douglas fir logs
canned salmon	hemlock logs
pickled salmon	Douglas fir, planks, boards

(8) British Columbia, Department of Labour, Economic Council, " The Trade of British Columbia, 1935."

Douglas fir, square timber	copper blister
wood shingles	lead in pigs
pulp-wood	silver in pigs
wood-pulp	zinc spelter
newsprint	ammonium sulphate
copper ore	

These commodities are sold in the competitive markets of the world. The industries receive no benefit from the tariff when exported, but, on the contrary, the cost of production is increased by the incidence of the tariff.

In considering the incidence of the tariff as between British Columbia and the Provinces of Ontario and Quebec, it is not enough to deal with the figures showing the direct contribution British Columbia is making to subsidize the industries of these provinces without compensating return. There is another aspect of equal importance. It is that the economic effect of the tariff policy is to hamper her industries and incapacitate her for meeting the tolls imposed.

Five: Not only is the federal income tax excessive and an invasion of the field of provincial sources of revenue, but it is applied on a principle contrary to the spirit of Confederation.

The British North America Act has allotted to the provinces ownership of the lands, forests, minerals, and other natural resources. The Dominion is taking as income revenues derived from the depletion of these assets. From the standpoint of the individual the returns from the disposal of the forests and mines of the provinces may be deemed to be income, but from the standpoint of the Province it is a disposal of her capital assets.

Tax on Lumber Industry:

For discussion *see* British Columbia in the Canadian Confederation, Part III., pages 37 to 48.

Tax on Mining Industry:

See Part III., pages 47 to 51.

Six: It is impossible for the Province and the municipalities to meet the necessary costs of the administration of government and debt obligations under existing conditions, except by increasing the burden of taxation to an intolerable extent.

ANALYSIS OF PROVINCIAL FINANCIAL POSITION.

A. *Current Revenue and Expenditure:*

The revenue of the Province for the last fiscal year was (Table 124, page 247)	$28,033,880
The current expenditure was (Table 123, page 241)	25,413,589
This shows an operating profit of	$2,620,291
Out of this expenditure there was paid for fixed charges (Table 108, page 195)	8,568,565
Deferred payments	2,467,230
The amount expended for unemployment was charged to capital account (Table 56, page 108)	5,645,378

An analysis of the sources of revenue shows that of taxes paid by industries in the Province, 54.51 per cent. is directly based on wasting or wastable assets, and 45.49 per cent. on industries having no wastable assets. To this must be added the fact that considerable of the activity in non-wasting asset industries is dependent on the wasting-asset industries (*see* Part V., Table 100, page 183). These facts must be borne in mind in considering the future sources of revenue of the Province and its ability to meet its continuing obligations and needs.

The sources of provincial revenue are shown in Part V., Tables 97 and 98, pages 179–180.

Table 124, page 248, Part V., shows the revenue of the Province, 1871 to 1937. In each of 40 years there was a deficit, and in 17 years a surplus (*see* Table 95, page 178).

B. *The Provincial Debt* (*see* Part V., page 189):

The Net provincial debt 1937 .... $147,405,000

Of this amount, $28,000,000 has been recently borrowed from the Dominion for unemployment.

Analysis of the Municipal Financial Position.

This is set forth in Part V., beginning at page 200, and in the briefs submitted by the various city and municipal organizations.

From the above analysis a summary can be made of the tax burdens resting on the Province.

Summary for 1935–1936.

Provincial expenditures	$23,243,000
Municipal expenditures	28,442,000
Dominion Taxes from British Columbia	27,151,000
Total	$78,836,000
Less Federal Grants	1,625,000
	$77,211,000

Added to this is the indirect tax imposed on the Province by the incidence of the tariff in connection with commodities purchased in Canada outside the Province. It is impossible to estimate this amount accurately. It has already been figured that this tax, in relation to automobiles, alone is $3,450,000. The total must be a very large sum.

The Province and the municipalities are faced with the fact that they must have more revenues in order to balance their budgets. The present financial position is such that they cannot continue to budget for deficits. In the case of the municipalities they cannot obtain more revenues from the tax on the land, and new sources of income must be provided. Every such provision takes from the Province, which in turn has no source for its own needs except direct taxation.

An examination of recent provincial budgets indicates that the Province must raise an additional annual revenue of upwards of $10,000,000. The same examination will show that there is no method by which a substantial increase can be made except by an increase in the income tax. The Dominion to-day is taking from this Province in income tax over $8,000,000 per year. British Columbia has been forced, in defiance of the principle that such a tax up to its

needs is the primary right of the Province, to surrender this amount to the Dominion and borrow substantial portions of it back at interest for unemployment.

A comparison of the Provincial tax and of the Federal tax shows the extent to which the Dominion has crowded the provinces and municipalities out of the field.

THE PROVINCIAL INCOME TAX.

The tax of Net Income on individuals and corporations is governed by the Income Tax Act (Chapter 280, R.S.B.C. 1936). The taxation of Banks, Telegraph and Express companies, and the Output taxes on coal and minerals comes under Parts IV., V., VII., and VIII. of the Taxation Act (Chapter 282, R.S.B.C. 1936).

Except in the case of Insurance Companies, the taxes on Gross Income and on Output are alternate to the tax on Net Income, and the tax paid on Gross Income or Output applies on account of any greater sum that may be payable in respect of Net Income. Banks, Telegraph and Express companies are assessed a flat fee for each branch or agency in the Province.

In the case of the Net Income Tax, the rates on individual and corporate incomes are the same, except that corporations are not liable to the surtax imposed in 1933. Thus the present rate applicable to corporations is graduated from a minimum of 1 per cent. to a maximum of 10 per cent., which is reached when the taxable income exceeds $19,000. The rates, including sur-tax, applicable to individuals, expressed in percentages of the taxable income, without regard to personal exemptions, are as follows:—

	Per Cent.
On taxable income of $ 5,000	3.00
On taxable income of 10,000	6.25
On taxable income of 25,000	13.60
On taxable income of 50,000	18.50
On taxable income of 100,000	23.20
On taxable income of 500,000	27.77

For the fiscal year ended March 31st, 1937, the revenue from these sources was:—

Net Income Tax	$7,416,156.73
Output and Gross Income Taxes	960,896.55
Total Collections	$8,377,053.28
Refunds of 1 per cent. wage deductions	969,425.31
Net Revenue	$7,407,627.97

Of the Net Income Tax collections, 76 per cent. was from Corporations and 24 per cent. from individuals.

The returns assessed numbered:—

146,799	from individuals
4,027	from corporations
150,826	

The Dominion Income Tax.

The present rates, expressed in percentages of the taxable income, without regard to personal exemptions, are as follows:—

	Per Cent.
Corporations	15.0
Individuals:	
On taxable income of $ 5,000	5.0
On taxable income of 10,000	7.8
On taxable income of 25,000	16.9
On taxable income of 50,000	24.6
On taxable income of 100,000	33.3
On taxable income of 500,000	56.0

For the fiscal year ended March 31st, 1937, the revenue collected in this Province was $6,738,986.37.

The following is a comparison of the Dominion corporation tax and Provincial tax:—

	Dominion Tax.	Provincial Tax.
On taxable income of $ 1,000	$150.00	$10.00
On taxable income of 5,000	750.00	150.00
On taxable income of 10,000	1,500.00	550.00
On taxable income of 15,000	2,250.00	1,200.00
On taxable income of 20,000	3,000.00	2,000.00

Over $20,000 the Dominion Tax continues to be 50 per cent. in excess of the Provincial Tax.

The effect of the necessary increase in the provincial income tax is indicated by a statement made by the Finance Minister, the Honourable Mr. Hart, in a recent budget speech:—

" The effect of doubling the tax, taking into account the Dominion's levy, would be as follows:—

Whereas a Single Person Now Pays.

Gross Income.	To the Province.	To the Dominion.	Total Tax.
$5,000	$120.00	$180.00	$300.00
50,000	9,107.00	10,363.50	19,470.50
100,000	23,107.00	27,846.00	50,953.00
500,000	135,107.00	233,730.00	368,837.00

The Doubling of the Tax Would Entail

Gross Income.	To the Province.	To the Dominion.	Total Tax.
$5,000	$240.00	$180.00	$420.00
50,000	18,214.00	10,363.50	28,577.50
100,000	46,214.00	27,846.00	74,060.00
500,000	270,214.00	233,730.00	503,944.00 "

FURTHER SUBMISSIONS.

Unemployment Relief.

Relief for unemployment has been dealt with in Canada in the past on the basis that it was a responsibility primarily resting on the provinces and municipalities.

It is submitted that the time has come when the responsibility for the care of the employables who are unemployed should be fully assumed by the Dominion for the following reasons:—

One: The unemployment condition to-day is vastly different from that before the War. For years unemployment was mainly confined to three groups: The unemployable; those engaged in seasonable occupations; those out of work because of temporary conditions due to the cessation of an industry, a local calamity or some other isolated cause.

To-day, however, unemployment has assumed new aspects and presents new problems. No longer are the unemployable the majority of the unemployed. The problem is no longer sectional, seasonable, nor temporary. It is a definite national condition. It exists not only in Canada, but in the United States, Great Britain, and other countries. Unemployment has attained dimensions requiring treatment for the peace, order, and good government of Canada.

Two: The condition is now national in scope and presents problems of a national character with which only the Federal Government can properly deal. The subject of unemployment to-day presents three distinct problems:—

(*a.*) The immediate problem of relief to the needy.

(*b.*) The problem of unemployment insurance to provide for the future.

(*c.*) The economic and industrial problem of reducing unemployment by providing employment.

These three require action as parts of one co-ordinated whole; and in this way can be dealt with only by the Dominion.

The needy of to-day are the result of economic and industrial policies of the past. The employed of to-morrow will be indebted to the economic and industrial policies of to-day. Unemployment Insurance must be national to be effective, and it cannot logically or practically be divorced from the problem which makes it necessary or the policies affecting its existence.

Three: Unemployment by its very nature requires to be dealt with by Federal power. If it is of general seriousness no other power is adequate. If it is particularly serious in sections these localities are least able to bear the burden.

Four: The provinces must have relief in the readjustment of their relations with the Dominion. Within its limits in no other way can a more equitable form of readjustment be made. It automatically provides its benefits where and when they are most needed.

Five: It is the most effective way to deal with the problem of transiency.

British Columbia has a special problem and a special claim in this particular. This is due to her mild and attractive climate and to the beneficence of her legislation, and to the wanderlust which seems to bring the dissatisfied westward till they can go no further. (For further discussion of the transiency problem in British Columbia *see* Part IV., pages 130 to 142.)

In emphasizing that the Dominion should assume full responsibility for the employable unemployed, sight must not be lost of the fact that further provision should also be made for transients in the case of the unemployable. If the provinces and municipalities are to continue to assume this service, some protection and assistance must be given this Province for the unemployables of other provinces who are coming here in increasing number.

The Pacific Great Eastern Railway.

The Pacific Great Eastern Railway is now a Provincial Government-owned railway. It extends from Squamish at the head of Howe Sound to Quesnel on the Fraser River, a distance of 348 miles. Squamish is 35 miles from Vancouver, and connection is made by steamers operated by the Union Steamship Company.

The Pacific Great Eastern Railway Company was originally a privately-owned enterprise. The promoters and the original builders were Foley, Welch & Stewart, a firm of railway contractors and builders. The construction of the road was commenced in 1912. The scheme was for the construction and operation of the road from North Vancouver to Prince George on the line of the Grand Trunk Pacific Railway, a distance of 470 miles. Foley, Welch & Stewart had been engaged in a large way as contractors in the construction of the Grand Trunk Pacific Railway and were closely identified with the officers of that company. The Pacific Great Eastern proposal was developed by the promoters in close collaboration with the Grand Trunk Company and the Government of the Province. It was recognized that the success of the scheme partly depended on traffic arrangements with the connecting line, the Grand Trunk Pacific. An agreement dated January 23, 1912, was entered into between Foley, Welch & Stewart and the Grand Trunk Pacific Railway Company. One clause of the agreement provided:—

> " All passenger, freight, express, and mail traffic originating in the line of the Grand Trunk Pacific Railway or the Grand Trunk Pacific branch lines, and destined to Vancouver or points on the lines off the Pacific Great Eastern Railway, the routing of which is under control of the Grand Trunk Pacific Railway, shall be routed over the Pacific Great Eastern Railway; the rates and tolls, and apportionments thereof for such routing, to be as agreed upon between the Grand Trunk Pacific Railway Company and the Pacific Great Eastern Railway Company, subject to the approval of the Board of Railway Commissioners for Canada and of the Government of British Columbia, so far as their respective jurisdictions extend in the premises."

The agreement further deals with inter-exchange of express and telegraphs on the Grand Trunk Pacific system and the Pacific Great Eastern, and further provides that the agreement is to be binding upon the respective successors of the Grand Trunk Pacific Railway Company and upon the several heirs and assigns of the builders of the Pacific Great Eastern—Foley, Welch & Stewart.

The Pacific Great Eastern Road gave promise of opening up a large area of timber country beyond Squamish, the farming areas of Pemberton Meadows, the rich mining area of the Bridge River and Cariboo Districts, and the farming and grazing areas along the Fraser to Prince George. It was also in contemplation that the Railway should be extended from Prince George northward into the Peace River District.

The Government of the Province, with the desire to open up and develop these important areas of the Province, and with the assurance of the success of the venture, because of the possibilities of the country along the line and

because of the very important traffic agreement with the Grand Trunk Pacific, made an agreement with the Foley, Welch & Stewart Company whereby the Province guaranteed the securities of the railroad to the extent of $35,000 a mile for 450 miles of the line. The Provincial Statute, Chapter 36, of 1912 authorized the Pacific Great Eastern Company to build and operate a railway from North Vancouver via Squamish to Prince George. By Chapter 65 of the Statutes of 1914 the Company was further authorized to extend the line to the Peace River Block.

The agreement of guarantee of $35,000 a mile and the agreement providing for traffic arrangements with the Grand Trunk Pacific Company were each "ratified, confirmed, and declared to be legally binding" by Chapter 34 of the Statutes of 1912, and the agreements were set out in full as Schedules A and B to the Statute.

In 1914 the guarantee was extended to include a mileage of 480 miles, and provision was made for an additional security of $7,000 a mile or a total of $42,000 a mile for 480 miles, amounting to $20,160,000. These securities have been issued in full and are now an outstanding liability of the Province, and through War conditions and other difficulties the contractors were unable to complete their contract, and in 1918 the Government of the Province was compelled to take over the Company, its assets and liabilities. (*See* Chapter 66, British Columbia Statutes, 1918.) The road is now completed from Squamish to Quesnel, and is operated by the Company which is owned and controlled by the Province. The road was originally completed to a point shortly beyond Quesnel and also 17 miles from Prince George south, leaving a gap of 45 miles upon which there was no steel, but grading was completed. The road was also completed from North Vancouver to Howe Sound or thereabouts, and for a time was operated as an interurban service. This portion has been discontinued, and the constructed portions between Prince George and Quesnel have been abandoned. There is on this portion now 75 miles to be completed. One reason for not completing the line to Prince George has been that the Province was deprived of the prospective benefits of the connection of the Road with the Grand Trunk Pacific, and the prospects of making its railway the Pacific outlet at Vancouver for the Grand Trunk Pacific transcontinental line. This was due to the fact that the Canadian Northern had obtained its outlet to Vancouver by way of the Thompson and Fraser River Valleys. When the Dominion amalgamated the Grand Trunk and the Canadian Northern into the Canadian National system, the value of the P.G.E. Railway Company's traffic agreement with the Grand Trunk was completely destroyed. The result has been not only to preclude completion of the road to Prince George, but to make impossible a present profitable operation of the road as constructed and to postpone indefinitely the entry into, and opening up of, the Peace River country.

The present total investment of the Province in this railway including interest is $78,000,000. (*See* Hon. John Hart, Budget Speech, November 10, 1937. His figures less interest compounded.) This total is made up as follows:—

Advances to the Railway as the result of borrowing	$16,919,521.04
Advances to the Railway as the result from consolidated revenue	2,598,958.09
Interest advances from consolidated revenue for interest payments on guaranteed stock and bonds	17,464,543.82
Interest payments for sundry loans	20,054,482.76
Discounts in connection with the sale of debentures	612,071.53
Amount of guaranteed obligations	20,160,000.00
Total Investment of Province in P.G.E.	$77,809,577.24

In 1926 there was an operating loss of	$275,000
There has been an improvement every year since.	
In 1932 the operating loss was	68,000
In 1936 there was a net operating profit of	115,000
In 1937 there was a net operating profit of	63,000

These figures reflect the increased development of the area served and particularly the benefit derived by the railway from the gold-mining industry of the Cariboo and Bridge River Districts.

During the War the Dominion Government established a policy of acquiring certain smaller railways under the authority of the Branch Line Act, 1915, Chapter 16. As a result of this policy the Dominion has taken over a number of railways, as appears in the following table:—

Railway.	Miles.	Purchase Price.
New Brunswick and Prince Edward Island	36.05	$270,000.00
International Railway of New Brunswick	105.73	2,700,000.00
Moncton and Buctouche Railway	30.00	112,026.27
Salisbury and Albert Railway	45.00	149,785.82(2)
St. Martin's Railway	30.00	65,000.00(2)
Elgin and Havelock Railway	24.00	36,860.85
York and Carleton Railway	10.25	19,398.93
Quebec and Saguenay Railway	62.30	6,342,804.22
Caraquet and Gulf Shore Railway	80.00	150,000.00
Lotbiniere and Megantic Railway	30.00	336,875.00
Cape Breton Railway	30.64	103,753.42(1)
Vale Railway	5.75	30,000.00
Inverness Railway	60.50	375,000.00
Kent Northern Railway	28.00	60,000.00
Quebec, Montreal and Southern Railway	191.00	6,000,000.00
Quebec, Oriental and Atlantic, Quebec & Western Railway	202.40	3,500,000.00
St. John and Quebec Railway	157.80	6,000,000.00
Totals	1,129.40	$26,251,504.51 (approx.)

(1) Capital expenditure, fiscal year 1920–1921.

(2) Plus accounts outstanding.

The total Dominion investment in all Railways and Rolling Stock as of March 31, 1934, was $1,205,000,000.

It is submitted that it is in the interests of Canada that this railway should be completed to Prince George and from there northward, so as to give a Pacific outlet through the Ports of Prince Rupert and Vancouver to the Peace River Country. It is submitted that the Pacific Great Eastern Railway and the proposed extensions should form part of the Canadian National Railway or should be operated under the joint control of the Canadian National and the Canadian Pacific Railway Companies.

It is submitted that there is an obligation on the part of the Dominion to give effect to these proposals for the following reasons:—

One: It is in accordance with the policy of the Dominion already in force in other parts of Canada by which large sums have been invested for the construction and operation of branch lines, main lines, and canals.

Two: It is the only possible solution of the problem of the Pacific Great Eastern.

Three: It is the only way to have the road extended into the Peace River.

Four: The completion and extension of the road will increase its earning capacity and will serve as a valuable feeder to the Canadian National.

Five: It will provide a necessary outlet to the Pacific for the Peace River. This in turn will open up a valuable portion of the Dominion for agricultural settlement and industrial development, which will be for the general advantage of Canada.

Six: The national system can operate the road as part of its organization more effectively and economically than is possible under existing conditions.

Seven: It will give some measure of relief to British Columbia to mitigate the unfair disadvantages under which she has suffered.

Eight: There is a direct obligation on the Dominion because the railway policy of Canada has destroyed the traffic arrangement which was the basic condition on which the enterprise was undertaken.

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